

OFFICIAL STATEMENT

RAINBOW
MUNICIPAL WATER DISTRICT
SAN DIEGO COUNTY, CALIFORNIA

Public utilities water San Diego
Local finance
Investments Public securities

\$3,600,000

1973 WATER BONDS, SERIES A

(General Obligations)

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Bids to be received by a representative of the District at the offices of Stone & Youngberg Municipal Financing Consultants, Inc., 1541 Wilshire Boulevard, Suite 402, Los Angeles, California 90017 at 11:00 A.M., Tuesday, November 16, 1976.

RAINBOW MUNICIPAL WATER DISTRICT
San Diego County, California

BOARD OF DIRECTORS

Robert Ingold, *President*

Virgil G. Hutton, *Vice President*

Stephen C. Turner, *Secretary-Treasurer*

Rio G. Lucas, *Director*

William E. McMillan, *Director*

Pat N. Scott, *General Manager*

SPECIAL SERVICES

Rutan & Tucker, *Santa Ana*

Bond Counsel

Stone & Youngberg Municipal Financing Consultants, Inc., *San Francisco*

Financing Consultants

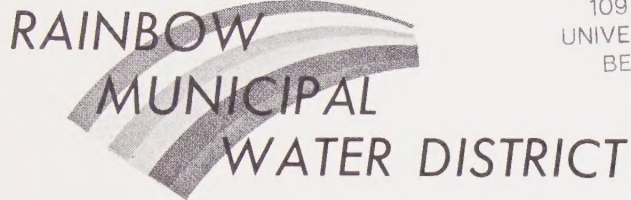
Bank of America N.T. & S.A., *San Diego*

Paying Agent

(Co-paying agents in New York City and Chicago to be named by District.)

THE DATE OF THIS OFFICIAL STATEMENT IS OCTOBER 25, 1976.

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October 25, 1976

To Whom It May Concern:

The purpose of this Official Statement is to supply information to prospective bidders on and buyers of \$3,600,000 of 1973 Water Bonds, Series A, authorized and to be issued for the purpose of assisting in the financing of water system improvements and paying of expenses in connection with bond issuance.

The material contained in this Official Statement was prepared by Stone & Youngberg Municipal Financing Consultants, Inc., in the capacity of financing consultant to the Rainbow Municipal Water District in connection with the District's 1973 Water Bonds, Series A, and that firm will receive compensation from the District contingent upon the sale and delivery of the Bonds. Summaries herein presented of the Resolution of Issuance, Notice Inviting Bids, project improvements, financial and economic data do not purport to be complete, and reference is made to the documents on file in the office of the Secretary of the District for further information. Statements which involve estimates or opinions, whether or not expressly so described herein, are intended solely as such and are not to be construed as factual reports.

The Official Statement does not constitute a contract with the buyers or holders, from time to time, of the Bonds. The Resolution of Issuance, which does constitute such a contract, is available to any prospective bidder on request from the Secretary.

The legal opinion, approving the validity of the Bonds, will be furnished by Rutan & Tucker, Santa Ana, California, Bond Counsel to the District. Bond Counsel's participation in the preparation of this Official Statement has been limited to reviewing the statements of law and legal conclusions as set forth herein under the heading "The Bonds".

No dealer, broker, salesman or other person has been authorized by the District to give any information or to make any representations other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the District. This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

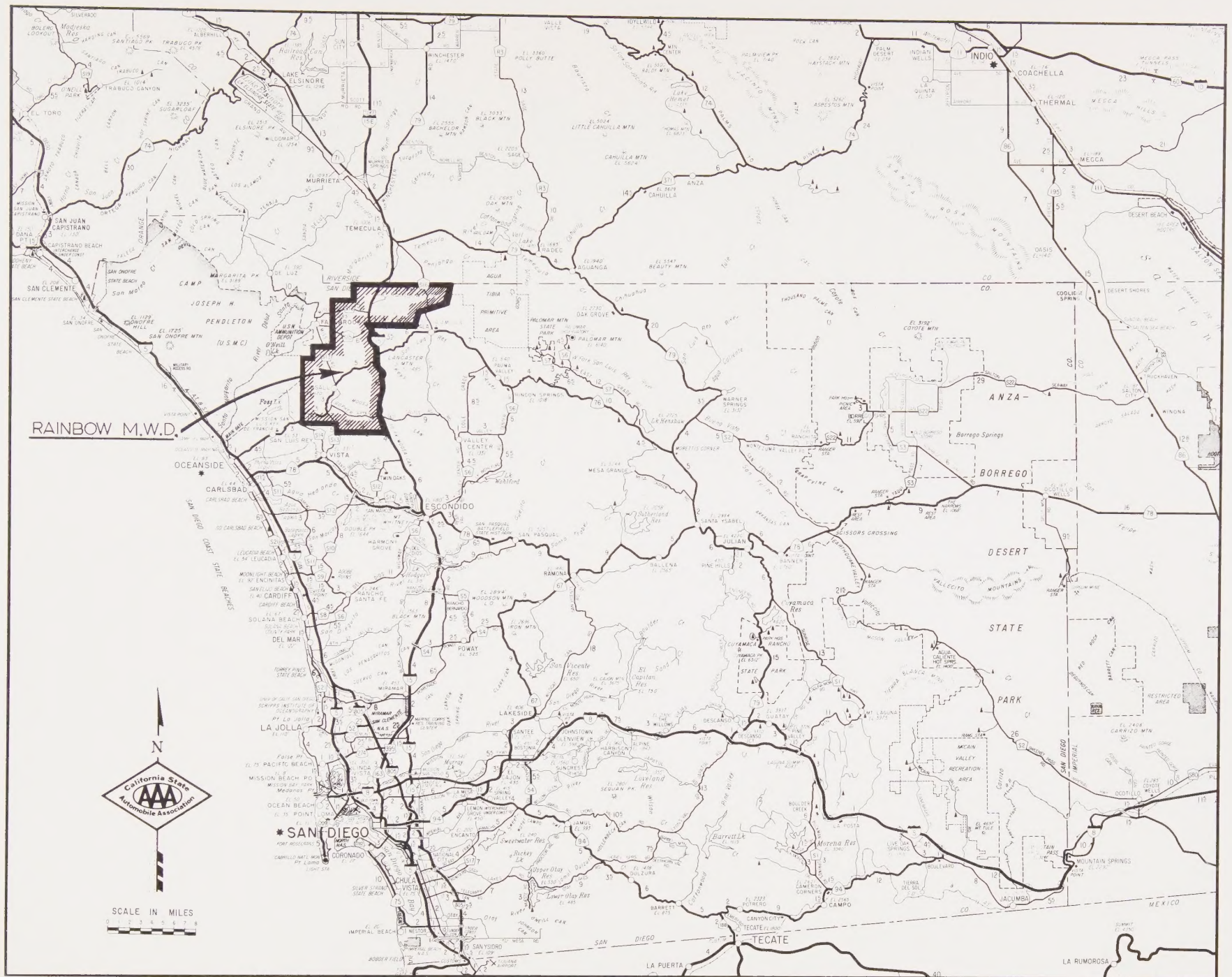
The execution and distribution of this Official Statement have been duly authorized by the District.

RAINBOW MUNICIPAL WATER DISTRICT

s/ Robert Ingold
President

s/ Stephen C. Turner
Secretary-Treasurer

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Vicinity map showing the Rainbow Municipal Water District and its location within San Diego County.

INTRODUCTION

The \$3,600,000 principal amount of Rainbow Municipal Water District (the "District") 1973 Water Bonds, Series A, which are currently being offered for sale represents the initial sale of \$6,000,000 authorized by more than two-thirds of the voters voting at a District-wide election on September 15, 1973. The Bonds are general obligations of the District, and are secured by and payable from the District's power and obligation to levy unlimited property taxes. Bond proceeds will be used to retire \$3,000,000 outstanding refunding bond anticipation notes and to finance improvements to the District's water system.

The District currently receives Colorado River water as a member of the San Diego County Water Authority which in turn is a member of the Metropolitan Water District of Southern California. The District retails water to customers for agricultural (93%) and non-agricultural uses (7%). It also wholesales water to the Yucca Mutual Water Company. As of October 1, 1976, the District had 2,712 water connections. District policy is to provide all main water storage, transmission and pumping facilities as a District-wide obligation. Water distribution and sewage collection and disposal systems are financed by either developers and/or issuance of bonds by separate improvement districts.

The District is located in northern San Diego County about 40 miles north of the City of San Diego and 75 miles south of Los Angeles. The District was formed in 1953 and comprises about 74 square miles. It is governed by a five-member Board of Directors elected for overlapping four-year terms. As of April 1975 the District population was estimated at 6,000. The District is traversed by Interstate 15 and State Route 76, providing ready access to the entire Southern California region and beyond.

Of the District's total area of approximately 47,100 acres, about 10,300 acres have been devel-

oped, primarily in agriculture. More than half of the developed land is planted in avocados. The next most important crop is lemons. The District's climate, soils, topography and dependable water supply all contribute to the successful production of these high-yield crops. The District expects the expansion of avocado and citrus production to continue in future years. There are approximately 13,000 additional acres in the District suitable for these crops. Urban uses account for approximately 13 percent of the District's developed area. These consist primarily of recreation-oriented subdivisions and three mobile home parks. However, agriculture is expected to remain the principal activity within the District.

The District's 1976/77 assessed valuation is \$57,187,308, which represents an increase of 44.7% since 1971/72.

During fiscal years 1970/71-1972/73 secured tax delinquencies within the District averaged 6.05% of the secured tax levies. However, the average delinquency rate for the next three fiscal years (1973/74-1975/76) rose to 10.20%. The increased rate is due primarily to the bankruptcy of Westgate California Company and affiliated companies, the developers of San Luis Rey Downs which is located in Improvement District No. 4 of the District. These companies were financed by the former U.S. National Bank. The Federal Deposit Insurance Corporation, as receiver for the U.S. National Bank, has initiated foreclosure proceedings and has stated that prior to receiving title to the properties it will pay all taxes then owing (See letter in the appendix of this official statement). Without the delinquencies resulting from the bankruptcy, the District's secured tax delinquencies averaged 6.50% since 1970/71. Including the delinquencies resulting from the bankruptcy, total tax collections, which include prior years' collections, penalties and interest, averaged 97% of the current levy over the past six fiscal years.

The direct debt of the District as of the date of sale of the Bonds will be \$9,400,000 of general obligation bonds (which include the bonds currently offered, \$1,614,055 of bonds which are partially (97.526%) secured by properties which have been excluded from the District but which still remain liable for these bonds); and \$120,000 of short-term notes. The net direct and estimated overlapping debt will be \$15,682,527 or 27.42% of the District's 1976/77 assessed valuation.

THE BONDS

Authority for Issuance

The Bonds shall be issued pursuant to Section 53541 of the California Government Code, in lieu of a like portion of the \$6,000,000 principal amount of general obligation bonds authorized by the voters at a special District-wide election held on September 25, 1973 by a vote of 762 to 226 (77.1 percent).

The \$3,600,000 1973 Water Bonds, Series A ("the Bonds"), now being offered for sale represent the first series of the \$6,000,000 authorization. The Bonds will be issued pursuant to the provisions of a resolution of the District Board of Directors adopted October 25, 1976.

Terms of Sale

Bids for the purchase of the Bonds will be received by a representative of the Board of Directors of the Rainbow Municipal Water District at 11:00 A.M., Tuesday, November 16, 1976, at the offices of Stone & Youngberg Municipal Financing Consultants, Inc., 1541 Wilshire Boulevard, Suite 402, Los Angeles, California 90017. It is anticipated that award of the Bonds to the successful bidder will be made by the Board of Directors at its meeting later on the same date. Details of the terms of sale are included in the Notice Inviting Bids dated October 25, 1976, a copy of which accompanies this official statement as originally distributed.

Description of the Bonds

The \$3,600,000 principal amount of 1973 Water Bonds, Series A, will be dated December 1, 1976 and will be issued in denominations of \$5,000 each. The bonds will be numbered A1 through A720 and will be payable annually on June 1 of each year as shown in the tabulation in the column opposite.

Interest is payable semiannually on the first days of June and December in each year, commencing June 1, 1977. Interest and principal are payable at the San Diego, California, Trust Office of the Paying

Agent, Bank of America N.T. & S.A., or at any paying agent of the District in New York, New York or Chicago, Illinois.

MATURITY SCHEDULE

Maturity Date June 1	Principal Amount	Maturity Date June 1	Principal Amount
1978 ...	\$100,000	1986 ...	\$250,000
1979 ...	100,000	1987 ...	250,000
1980 ...	150,000	1988 ...	250,000
1981 ...	150,000	1989 ...	300,000
1982 ...	200,000	1990 ...	300,000
1983 ...	200,000	1991 ...	300,000
1984 ...	200,000	1992 ...	300,000
1985 ...	250,000	1993 ...	300,000

Redemption Provisions

Bonds maturing on or before June 1, 1985, a total principal amount of \$1,350,000, are not subject to call and redemption prior to their fixed maturity dates. Bonds maturing on or after June 1, 1986, a total principal amount of \$2,250,000, are subject to call and redemption, at the option of the District, as a whole or in part in inverse order of maturity and by lot within a single maturity on June 1, 1985, or on any interest payment date thereafter, upon payment of a redemption price equal to the principal thereof plus a premium of one-fourth of one percent of such principal amount for each year or fraction of a year from the redemption date to the maturity date of the Bonds called for redemption. The maximum premium payable upon call of the Bonds for redemption on or after June 1, 1985 would be two percent.

Notice of Redemption

Notice of redemption is to be published in a newspaper of general circulation in the County of San Diego, California and a financial newspaper or finan-

cial journal, published in the City of New York, New York. The first publication must be at least 30 days but not more than 60 days prior to the redemption date. The Paying Agent is required to give written notice to the owners of any registered Bonds.

Registration

The Bonds will be issued as coupon bonds or fully registered bonds and be interchangeable in accordance with the provisions in the resolution providing for the issuance of the Bonds.

Purpose of Issue

The proceeds from the sale of the Series A Bonds will be used to retire \$3,000,000 outstanding refunding bond anticipation notes and to finance water system improvements in the District, as more fully described in the section of this official statement entitled "The Project". The District does not now anticipate selling any of the remaining authorized bonds (a total of \$2,400,000) prior to January 1979.

Tax Exempt Status

In the opinion of Bond Counsel, interest on the Bonds is exempt from present federal income taxes and from State of California personal income taxes under existing statutes, regulations and court decisions.

Security

The Bonds are general obligations of the Rainbow Municipal Water District and the District has the power and is obligated to levy annual ad valorem taxes for payment of the Bonds and the interest thereon upon all property within the District subject to taxation by the District (except certain personal property which is taxable at limited rates) without limitation as to rate or amount. The foregoing obligations, however, may be limited by bankruptcy, insolvency, or other laws affecting the enforcement of creditors' rights. At the option of the Board of Directors, other District funds which are not special purpose funds restricted by law to specific uses may be used to meet Bond service.

Legal Opinion

The unqualified opinion of Rutan & Tucker, Santa Ana, California, Bond Counsel for the District, attesting to the validity of the Bonds, will be supplied free of charge to the purchaser of the Bonds. A copy of

the legal opinion, certified by the official in whose office the original is filed, will be printed on each Bond without charge to the successful bidder.

Certificate Concerning Official Statement

At the time of payment for and delivery of the Bonds, the District will furnish the successful bidder a certificate, signed by an appropriate officer of the District, acting in his official capacity, to the effect that to the best of his knowledge and belief, and after reasonable investigation: (a) Neither the official statement relating to the Bonds nor any amendment or supplement thereto contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements therein, in light of the circumstances in which they were made, not misleading; (b) since the date of the official statement no event has occurred which should have been set forth in an amendment or supplement to the official statement which has not been set forth in such an amendment or supplement; nor (c) has there been any material adverse change in the operation or financial affairs of the District since the date of such official statement.

Other Closing Documents

In addition to the opinion of Bond Counsel and the Certificate Concerning Official Statement described above, the District will, at the time of delivery of the Bonds, furnish the purchaser the following documents, all to be dated as of the date of delivery.

1. *Arbitrage Certificate.* A certificate of a responsible officer of the District certifying that, on the basis of the facts and circumstances in effect at the time of delivery of the Bonds, it is not expected that the proceeds of the Bonds will be used in a manner that will cause the Bonds to be arbitrage Bonds.

2. *Signature—No Litigation Certificate.* A certificate of the respective officers and representatives of the District showing that they have signed the Bonds by manual or facsimile signature, that they were duly authorized to execute the same, and that there is no litigation threatened or pending affecting the validity of the Bonds.

3. *Treasurer's Receipt.* The receipt of the Treasurer of the District showing that the purchase price of the Bonds, including accrued interest to the date of delivery (if any), has been received by the District.

Estimated Annual Bond Service

Table 1 presents an estimate of annual bond service for the \$3,600,000 principal amount of 1973 Water Bonds, Series A. Interest is estimated at 7½ percent. Actual bond service on all the District's outstanding general obligation bonds is also shown. Based on the District's 1976/77 assessed valuation and an eight percent interest rate (the legal maximum) the tax rate necessary in 1977/78 to meet debt service on all outstanding Bonds and the Series A Bonds now being offered would be \$1.58 per \$100 assessed valuation.

However, it is noted that tax revenues from the District's 1976/77 tax rate of \$1.52 per \$100 assessed valuation, water sales and other revenues combined are meeting all previous general obligation bond service plus interest on \$3,000,000 outstanding refunding bond anticipation notes which will be retired by the Series A Bonds. Therefore, it is not anticipated that sale of the Series A Bonds currently offered will require an appreciable tax rate increase, if any at all.

Table 1

RAINBOW MUNICIPAL WATER DISTRICT

Estimated Annual Bond Service^①

Year Ending June 1	Estimated Bond Service, 1973 Bonds, Series A				Prior Issues Actual Bond Service	Grand Total
	Principal Outstanding	Interest @ 7½ %	Principal Maturing June 1	Total Bond Service		
1977	\$3,600,000	\$ 135,000 ^②	\$ —	\$ 135,000	\$ 248,806	\$ 383,806
1978	3,600,000	270,000	100,000	370,000	531,418	901,418
1979	3,500,000	262,500	100,000	362,500	533,565	896,065
1980	3,400,000	255,000	150,000	405,000	534,735	939,735
1981	3,250,000	243,750	150,000	393,750	535,384	929,134
1982	3,100,000	232,500	200,000	432,500	535,243	967,743
1983	2,900,000	217,500	200,000	417,500	534,860	952,360
1984	2,700,000	202,500	200,000	402,500	533,849	936,349
1985	2,500,000	187,500	250,000	437,500	537,076	974,576
1986	2,250,000	168,750	250,000 ^③	418,750	529,524	948,274
1987	2,000,000	150,000	250,000 ^③	400,000	462,920	862,920
1988	1,750,000	131,250	250,000 ^③	381,250	462,195	843,445
1989	1,500,000	112,500	300,000 ^③	412,500	348,025	760,525
1990	1,200,000	90,000	300,000 ^③	390,000	345,285	735,285
1991	900,000	67,500	300,000 ^③	367,500	346,835	714,335
1992	600,000	45,000	300,000 ^③	345,000	347,793	692,793
1993	300,000	22,500	300,000 ^③	322,500	347,953	670,453
1994	—	—	—	—	352,203	352,203
1995	—	—	—	—	253,650	253,650
1996	—	—	—	—	167,425	167,425
1997	—	—	—	—	91,625	91,625
1998	—	—	—	—	92,250	92,250
Totals		\$2,793,750	\$3,600,000	\$6,393,750	\$8,672,619	\$15,066,369

① Includes only issues of parent district—excludes issues of improvement districts.

② Six months' interest.

③ Callable on or after June 1, 1985.

THE PROJECT

Water Supply

The Rainbow Municipal Water District obtains water from the San Diego County Water Authority through the two San Diego Aqueducts. The District is currently receiving both filtered and untreated Colorado River Water by means of the County Water Authority's membership in the Metropolitan Water District of Southern California. (MWD). Beginning in late Spring 1977 the District will receive a blend of treated water from the Colorado River (MWD) and Feather River in northern California (State Water Project).

Project Description

The proceeds from the sale of the Series A Bonds will partially be used to retire \$3,000,000 of Refunding Bond Anticipation Notes which were sold on December 9, 1975 and which become due and payable January 2, 1977. The notes were originally issued to finance the acquisition and installation of water transmission lines; two reservoirs, one of 4,000,000 gallons and the other of 500,000 gallons; and installation of three pressure-reducing stations.

Series A bond proceeds will also be used to finance construction of a pump station, relocation of a transmission line due to freeway construction, purchase of a storage tank site and other rights of way, engineering and bond issuance costs.

Estimated Project Costs

Table 2 below presents a schedule of the costs to be met with the proceeds of the 1973 Series A Bonds, as estimated by the District.

Table 2

ESTIMATED PROJECT COSTS

Note retirement	\$3,000,000
North Pump	50,000
Land and Rights of Way	450,000
Telemetry	25,000
Engineering and contingencies	50,000
Costs of bond issuance	25,000
Total Bond Issue	\$3,600,000

DISTRICT FINANCIAL DATA

Assessed Valuations

The Rainbow Municipal Water District uses the facilities of San Diego County for the assessment and collection of taxes for District purposes. As a Municipal Water District, the District taxes all land, improvements and personal property within its boundaries that are subject to taxation. District taxes are collected at the same time and on the same tax rolls as are city, county and school district taxes. The California State Board of Equalization reports the 1976/77 San Diego County valuations average 25.1 percent of full value except for public utility property, which was reported to be assessed at 25 percent of full cash value by the state.

The California State Legislature adopted two types of State-reimbursed exemptions beginning in the tax year 1969/70. The first currently exempts 50 percent of the assessed valuation of business inventories from taxation. The second exemption currently provides a credit of \$1,750 of the assessed valuation of an owner-occupied dwelling for which application has been made to the county assessor.

Revenue estimated to be lost to local taxing agencies due to the above exemptions is reimbursed from State sources. Reimbursement is based upon total taxes due upon such exempt values and therefore is not reduced by any amount for estimated or actual delinquencies. The following summary presents the District's 1976/77 assessed valuation before and after giving effect to such State-reimbursed exemptions.

RAINBOW MUNICIPAL WATER DISTRICT 1976/77 Assessed Valuation

Roll	Net Assessed Valuation	State- reimbursed Exemptions	Assessed Valuation for Revenue Purposes
Secured	\$51,674,009	\$2,132,262	\$53,806,271
Utility	2,436,150	—	2,436,150
Unsecured . . .	736,009	208,878	944,887
Total	\$54,846,168	\$2,341,140	\$57,187,308

Source: San Diego County Auditor-Controller.

Since 1971/72, the District's assessed valuation has increased 44.7 percent, as summarized in the tabulation on the next page.

RAINBOW MUNICIPAL WATER DISTRICT

Growth in Assessed Valuation

Fiscal Year	Assessed Valuation*
1971/72	\$39,521,474
1972/73	40,404,643
1973/74	44,981,449
1974/75	51,006,927
1975/76	55,127,792
1976/77	57,187,308

*Before deduction of State-reimbursed exemptions.
Source: San Diego County Auditor-Controller.

Tax Rates

The overall District property tax rate (excluding separate rates for various improvement districts within the overall District) for the 1976/77 fiscal year has been established at \$1.52 per \$100 assessed valuation. The growth of assessed valuation and the ability of the District to finance service costs from water revenues have permitted this levy to remain constant since 1974/75, at which time it was increased from \$1.45.

Under California statutory tax rate limitations, the District's maximum allowable ad valorem tax rate, other than to meet debt service on voter-approved general obligation bond issues, is \$0.12 per \$100 assessed valuation.

A total of 124 tax code areas were established within the District for the 1976/77 fiscal year. The two largest, Code Areas 57008 and 75013, had 1976/77 assessed valuations of \$4,319,252 and \$7,926,490, respectively, or about 23 percent of the District's total assessed valuation. The tax rates

applying to all property within both areas are summarized in the tabulation below.

RAINBOW MUNICIPAL WATER DISTRICT

1976/77 Tax Rates/\$100 A.V.

Tax Code Areas 57008 and 75013

Taxing Entity	Tax Rate	
	Code Area 57008	Code Area 75013
San Diego County	\$2.282	\$2.282
Schools/education	4.282	4.469
Rainbow MWD	1.520	1.520
Metropolitan Water District .	.130	.130
County Water Authority ...	.110	.110
Other special districts	1.373	1.373
Total	\$9.697*	\$9.884*

*Excludes \$.009 on land only for resource conservation.
Source: San Diego County Auditor-Controller.

Tax Levies and Delinquencies

Taxes on the secured roll are payable in two installments on November 1 and February 1 of each fiscal year, and become delinquent on December 10 and April 10, respectively. Taxes on unsecured property are assessed and payable on March 1 and become delinquent the following August 31 in the next fiscal year.

The following tabulation shows the amount of secured taxes levied by the overall District, excluding any separate improvement district levies, for the period 1970/71—1975/76, the amount and percent of current taxes delinquent on June 30 of each year and the total collections each year, including those from prior years, penalties and interest.

RAINBOW MUNICIPAL WATER DISTRICT

Tax Levies and Delinquencies

Fiscal Year	District Secured Tax Levy①	Amount Collected June 30①	Amount Delinquent June 30①	Percent Delinquent June 30①	Total Collections June 30②	Percent Collected
1970/71	\$368,702	\$347,086	\$21,616	5.86%	\$370,347	100.45%
1971/72	435,591	407,339	28,252	6.49	418,387	96.05
1972/73	472,764	445,303	27,461	5.81	478,154	101.14
1973/74	621,137	554,949	66,188	10.66	595,381	95.86
1974/75	739,771	665,309	74,462	10.07	692,223	93.57
1975/76	795,761	717,319	78,442	9.86	755,675	94.97

① Source: San Diego County Auditor-Controller.

② Source: Arthur Young & Company, CPA's (District's auditors); includes prior years' collections, penalties and interest.

The marked increase in tax delinquencies beginning in 1973/74 is the result of the bankruptcy of Westgate California Company and affiliated companies. These firms developed San Luis Rey Downs, located in Improvement District No. 4. The property subject to delinquency is presently owned by the six subsidiaries of Pepperland, Incorporated ("Pepperland"). By virtue of the tax delinquencies, the property was "tax sold" to the State of California in June 1974. Thereafter, the six subsidiaries of Pepperland brought Chapter 11 proceedings in the U.S. District Court requesting reorganization. The Federal Deposit Insurance Corporation (FDIC), as receiver in bankruptcy for United States National Bank, brought a motion to dismiss the Chapter 11 proceedings. This motion is still pending.

The FDIC has informed the District by copy of a letter addressed to Congressman Clair W. Burgener dated July 30, 1975 (and reproduced in the Appendix of this official statement) that, as receiver for U.S. National Bank and therefore a holder of liens on a substantial number of acres in I.D. No. 4 upon which taxes are delinquent, it intends to bring the taxes current at such time as the FDIC can obtain marketable title to the property through foreclosure. It should be noted that if the FDIC cannot obtain marketable title through foreclosure, the delinquencies will not be paid until after the property is tax deeded to the State in late 1979.

Although I.D. No. 4 consists of only 5.38 percent of the overall District's 1976/77 assessed valuation, delinquent taxes owed to the overall District from properties involved in the bankruptcy proceedings totalled \$73,176 for fiscal years 1973/74-1975/76. These were computed on a parcel by parcel basis utilizing assessed valuations and tax rates in the particular fiscal year. This represents 33.4% of the combined June 30 delinquencies for the three years. Without these delinquencies, the District's secured tax delinquencies averaged 6.77% for the three years and 6.50% since 1970/71.

Until such time as the taxes are made current, it may be necessary to levy a property tax throughout the overall District at a higher rate to take into account the reduced revenue resulting from said delinquencies. The tax rate can legally be raised higher, if necessary, to meet bond service on outstanding voter-approved general obligation bonds; however, tax rates in the past three years have been set taking into account the delinquency rate so further substantial increases are unlikely.

Major Taxpayers

San Diego County does not compile a list of the largest ad valorem taxpayers in each particular taxing entity within the county.

Pension Plan

In addition to Social Security, the District adopted a pension plan effective January 1, 1969 covering all full-time employees (a total of 28 in 1976/77). The plan is funded through the Continental Assurance Company and makes no provision for any prior service cost. There is no District obligation for prior service costs. The District and the employee each contributes an annual amount equal to five percent of the employee's base annual salary. The District's pension expense, as audited, was \$13,410 in 1975/76, as compared to \$11,036 in 1974/75.

Insurance in Effect

As of October 1, 1976, the District had in effect the following insurance coverage: Bodily injury, property damage and auto fleet—\$1,000,000; Comprehensive on buildings and other items; Bonding of key employees—\$250,000; and an umbrella excess liability coverage of \$4,000,000 for each occurrence.

Water Rates

The District provides water service on both a wholesale and retail basis, although the great bulk of water is sold on a retail basis. Water is wholesaled to the Yucca Mutual Water Company. Water is retailed for both agricultural and non-agricultural uses.

The tabulation on the page opposite presents the District's current rate schedule. An increased charge (\$.025 per unit increase for all users) for filtered water only is presently under study by the Board of Directors, since commencement of filtered water delivery in September 1976.

Pending Damage Claim

The District has received a claim in the amount of \$300,000 (\$200,000 general damages and \$100,000 punitive damages) resulting from a fire that occurred adjacent to construction work being performed by a contractor employed by the District. This claim has been denied by the District and the matter is being handled by the District's insurance carrier.

RAINBOW MUNICIPAL WATER DISTRICT

Water Rates (Effective August 1, 1976)

Meter Size	Service Charge Per Month
Meters Under 1" (read bi-monthly)	\$ 4.50
Meters Under 1" (all others)	5.00
1" Meter	7.00
1½" Meter	12.00
2" Meter	18.00
3" Meter	34.00
4" Meter	52.00
6" Meter	102.00
Additional dwelling units—each	2.00
Mobilehome space	2.00
Additional commercial uses	2.00
Motel room with bath	1.00
	<u>Agriculture</u> <u>Others</u>
Quantity Rates Per 100 Cubic Feet	
First 2,600 Cubic Feet	\$.22 \$.22
Over 2,600 Cubic Feet	.14 .22
Pumping Charges*	
Rainbow Heights	4.8¢ per 100 cu. ft.
Improvement District U-1	2.3¢ per 100 cu. ft.
Meter Turn-On Charge	\$10.00 per mo.

Charges for Service Connections

Meter Size	New Meter Installation	Service Lateral Only
¾"	\$250	\$150
1"	300	150
1½"	500	210
2" disc	700	250
2" compound	950	250
3"	Cost plus 15%—Deposit \$1,800	
4"	Cost plus 15%—Deposit \$2,500	
Fire Hydrant Installation	Cost plus 15%—Deposit \$1,500	

*Added to water rates in areas indicated.

Income, Expenses and Balance Sheet

Table 3 on page 10 presents a summary of the District's revenue and expenses since 1971/72, as extracted from the District's annual audit reports prepared by Arthur Young & Company.

The District uses a modified accrual enterprise method of accounting as required by the California

State Controller. In general, income is recorded when earned and expenses are recorded upon incurrence of liability, except accrued interest on outstanding indebtedness which is payable from appropriations of the following year.

Table 4 on page 12 presents a two-year summary of the District's balance sheet, as audited.

Table 3**RAINBOW MUNICIPAL WATER DISTRICT****Revenue and Expenses^①**

	1971/72	1972/73	1973/74	1974/75	1975/76
REVENUE:					
Water sales	\$ 981,140	\$ 819,257 ^②	\$ 977,570	\$1,104,855	\$1,452,005
Property taxes and annexation fees	580,653	640,530	760,332	868,467	979,355
Meter and installation charges	152,850	161,744	197,091	236,817	219,264
Service charges	107,206	119,169	131,970	147,369	161,356
Sewer fees	46,019	32,424	27,516	38,484	41,886
Water availability charges	22,465	22,613	26,927	50,862	34,248
Interest income	102,541	56,706	166,278	198,156	120,273
Other income	13,745	15,256	14,908	13,471	28,709
Total revenue	\$2,006,619	\$1,867,699	\$2,302,592	\$2,658,481	\$3,037,096
EXPENSES:					
Water purchases	\$ 551,581	\$ 495,981	\$ 639,897	\$ 615,947	\$ 763,612
Meters and installations	133,424	134,651	173,204	206,959	185,326
Other operating expenses	225,916	245,638	314,277	399,870	461,733
Depreciation	209,878	342,764	331,231	353,902	411,876
General and administrative	171,068	179,503	191,107	222,549	281,164
Debt service	407,162	393,934	470,105	574,434	726,991
Total expenses	\$1,699,029	\$1,792,471	\$2,119,821	\$2,373,661	\$2,830,702
NET INCOME	\$ 307,590	\$ 75,228	\$ 182,771	\$ 284,820	\$ 206,394

① Extracted from District audits by Arthur Young & Company, copies on file at District office. All figures pertain to entire District, including all improvement districts.

② Decrease in water sales due to higher than normal rainfall, resulting in less irrigation water being purchased.

Direct and Overlapping Bonded Debt

As of the sale date of, and including, the Bonds currently offered, the overall District will have \$9,400,000 outstanding general obligation bonds, as

summarized in the tabulation below. As of the same date, the overall District will have \$2,400,000 authorized but unissued general obligation bonds.

RAINBOW MUNICIPAL WATER DISTRICT**Outstanding General Obligation Bonds**

Original Issue	Date	Outstanding Nov. 16, 1976	Final Maturity
\$1,250,000	7/1/55	\$ 560,000	7/1/85
1,500,000	12/1/62	1,095,000	12/1/87
1,200,000	1/1/67	1,030,000	7/1/95
1,300,000	7/1/68	1,180,000	7/1/97
1,000,000	1/1/71	935,000	1/1/95
1,000,000	8/1/73	1,000,000	8/1/93
3,600,000*	12/1/76	3,600,000	6/1/93
Total		\$9,400,000	

*To be sold.

In addition to the general obligation bonds that are secured by the entire District, there are a number of outstanding bonds issued by nine improvement districts within the overall District and are secured solely by the particular improvement district for which they were issued. The following tabulation summarizes these issues and shows the ratios of assessed values of the improvement districts to the entire District. As of the sale date of the Series A

Bonds currently offered, there will be a total of \$9,840,000 authorized but unissued bonds of the various improvement districts.

Table 5 on page 13 presents the District's direct and estimated overlapping bonded debt as of the sale date of the bonds currently offered. The District's share of authorized and unsold bonds is shown at the bottom of page 12.

RAINBOW MUNICIPAL WATER DISTRICT

IMPROVEMENT DISTRICTS

Outstanding General Obligation Bonds

Improvement District	Original Issue	Date	Outstanding Nov. 16, 1976	Authorized But Unissued	1976/77 Assessed Valuation	
					Impr. Dist.①	Percentage of Entire District A.V.
1	\$210,000	10/ 1/60	\$ 165,000	\$ —	\$1,739,488	3.04%
3	300,000	2/ 1/64	235,000	—	4,421,557	7.73
3	100,000	2/ 1/66	65,000	—		
3	95,000	7/ 1/68	60,000	—		
4	800,000	7/ 1/73	780,000	200,000	3,078,530	5.38
5	800,000	8/15/75	800,000	200,000	1,475,445	2.55
U-1	175,000	5/ 1/63	130,000	75,000	436,490	0.76
U-3	375,000	6/ 1/64	310,000	2,625,000	2,898,620	5.07
U-4	120,000	6/ 1/64	80,000	—	1,475,195	2.58
U-5	110,000	6/ 1/84	70,000	740,000	2,046,990	3.58
U-7	—	—	—	6,000,000	1,523,355	2.66
Total ...			\$2,695,000	\$9,840,000		

①Source: San Diego County Auditor-Controller.

Other Debt Obligations

In addition to outstanding general obligation bonds, the District has three other long-term debt obligations, as described in the following paragraphs.

The first of these is the previously discussed \$3,000,000 outstanding refunding bond anticipation notes, due January 2, 1977. These will be retired utilizing bond proceeds from the Series A Bonds currently offered.

The second obligation are contracts payable which consist of the unpaid balance and accumulated accrued interest relative to liabilities incurred for the purchase of water system extensions. These contracts payable totalled \$661,986 as of June 30, 1976. Annual payments of principal and interest on these

contracts are computed on the amount of water, if any, sold through the facilities or in certain service areas at \$6.00 per acre foot. Payments are due until the contract has been paid or for a maximum period of thirty years. It is unlikely that sufficient water will be sold through these facilities to substantially reduce the amounts payable before the contracts expire, thus ending all District liability under such contracts.

The third is a \$150,000 loan by Security Pacific National Bank at 5¼% annual interest. This was used to partially finance construction of the District's recently completed administrative offices and shop facilities. The loan is to be repaid in five \$30,000 installments on April 1, 1977-81.

Table 4
RAINBOW MUNICIPAL WATER DISTRICT
Balance Sheet^①

	June 30, 1975	June 30, 1976
ASSETS		
Water system, less accumulated depreciation	\$12,775,187	\$14,820,898
Construction funds	1,050,000	—
Notes receivable	60,683	97,459
Unamortized bond issue costs	155,589	163,471
Land and building	24,000	—
Pipe purchase deposits	395,000	—
Cash in banks	115,425	114,018
Time deposits	1,450,000	800,000
U.S. Government securities	80,500	896,299
Receivables	286,800	286,076
Water inventory	132,128	129,645
Prepaid expenses	1,850	12,872
Total Assets	<u>\$16,527,162</u>	<u>\$17,320,738</u>
LIABILITIES		
Bond anticipation notes payable ^②	\$ 3,000,000	\$ 3,000,000
Accounts payable	286,523	112,257
Accrued interest payable	302,974	324,807
Matured bond interest coupons	52,359	29,208
Long-term debt due by June 30, 1977	463,326	650,197
Bonds payable	7,845,000	8,365,000
Notes payable	300,000	120,000
Contracts payable	672,524	661,986
Subtotal Liabilities	<u>\$12,922,706</u>	<u>\$13,263,455</u>
FUND CAPITAL		
Retained earnings	\$ 397,464	\$ 530,616
Appropriated to water system	1,136,972	1,210,214
Construction contributions	1,976,658	2,119,174
Deferred credits ^③	93,362	197,279
Subtotal Fund Capital	<u>\$ 3,604,456</u>	<u>\$ 4,057,283</u>
Total Liabilities and Fund Capital	<u>\$16,527,162</u>	<u>\$17,320,738</u>

① As audited by Arthur Young & Company, audit reports on file at District office. All figures pertain to entire District, including all improvement districts.

② Due January 2, 1977—to be retired with bonds currently offered.

③ From acquisition of San Luis Rey Heights Mutual Water Company in 1970 and Bonsall Heights Water District in 1975.

District's Share of Authorized and Unsold Bonds

Rainbow Municipal Water District	Vallecitos School District	\$13,000
(overall District)	Bonsall Unified School District	6,900
Rainbow Municipal Water District		
(Improvement Districts)		9,840,000

Source: California Municipal Statistics, Inc., San Francisco, California.

Table 5

RAINBOW MUNICIPAL WATER DISTRICT
Direct and Estimated Overlapping Debt

Population (April 1975)	6,000 ^①	
1975/76 Assessed Valuation	\$ 55,127,792	
1976/77 Assessed Valuation	\$ 57,187,308	
Estimated Market Value	\$228,749,000 ^②	

Entity	Percent Applicable ^③	Debt Applicable November 16, 1976 ^④
San Diego County	.969%	\$ 37,161
San Diego County Water Authority	1.018	551,857
Metropolitan Water District	.141	764,401
Palomar Community College District	6.105- 6.011	138,704
Fallbrook Union High School District	33.757- 34.106	329,892
Bonsall Unified School District	68.996- 69.703	553,420
Fallbrook Unified School District	21.067- 22.070	437,427
Vallecitos School District	100.	55,000
Other School Districts	Various	15,771
Rainbow Municipal Water District (1955-62 Issues)	97.526	1,614,055
Rainbow Municipal Water District (Subsequent Issues)	100.	7,745,000 ^⑤
Rainbow Municipal Water District Improvement Districts	93.807-100.	2,684,781
Bonsall Heights Water District	100.	95,000
Morrow Hills Community Services District	89.537	49,245
Fallbrook Local Fire District	40.711- .035	11,828
Fallbrook Hospital District	24.256	496,035
Northern San Diego County Hospital District	.710	43,629
Tri-City Hospital District	.231	7,796
City of Oceanside and Small Craft Harbor	.508	56,488
TOTAL GROSS DIRECT AND OVERLAPPING BONDED DEBT		\$15,687,490
Less: City Water Bonds (100% Self-Supporting)		4,963
TOTAL NET DIRECT AND OVERLAPPING BONDED DEBT		\$15,682,527

	Ratio to			
	1975/76 Assessed Valuation	1976/77 Assessed Valuation	Estimated 1976/77 Market Value	Per Capita
1976/77 Assessed Valuation	100. %	—%	② %	\$9,531
Direct Debt (excluding Improvement Districts)	16.98	16.37	4.09	1,560
Gross Total Debt	28.46	27.43	6.86	2,615
Net Total Debt	28.45	27.42	6.86	2,614

① Source: Special April 1975 census conducted by San Diego County.

② The State Board of Equalization reported 1976/77 San Diego assessed valuations average 25.1 percent of full value except for public utility property which was reportedly assessed at 25 percent of full value.

③ Source: California Municipal Statistics, Inc., San Francisco, California; percentages based on 1975/76 assessed valuations.

④ Excludes revenue bonds and District's share of county, city and authority lease obligations (\$369,345), bond anticipation notes to be retired with the bonds currently offered (\$3,000,000) and notes payable (\$120,000). Excludes sales and repayments, if any, between October 20 and November 16, 1976.

⑤ Includes \$3,600,000 to be sold November 16, 1976.

THE DISTRICT

Formation and Organization

The Rainbow Municipal Water District was formed in 1953 pursuant to the Municipal Water District Law of 1911 (California Water Code Section 71000 et seq.). The District is governed by a five-member Board of Directors (the "Board") elected on a staggered basis for four-year terms. The present board members and general manager are as follows:

Robert Ingold—*President of the Board*. Mr. Ingold is a business investor and has served on the Board since 1964. Mr. Ingold's term expires December 31, 1976 and he will be replaced by a newly elected director, John H. Fox.

Virgil G. Hutton—*Vice President of the Board*. Mr. Hutton, an avocado grower and retired aeronautical engineer, has served on the Board since 1960.

Stephen C. Turner—*Secretary-Treasurer of the Board*. Mr. Turner, a retired investment broker, has served on the Board since 1967.

Rio J. Lucas—*Director*, is a building contractor and U.S.A.F. colonel (retired) and has served on the Board since 1973.

William E. McMillan—*Director*, is a real estate broker and has served on the Board since 1971.

Pat N. Scott—*General Manager*. Mr. Scott holds a Bachelor of Science degree in Public Administration from the University of Southern California and is a licensed civil engineer. He has served as District general manager since 1968.

Advisory Committees comprised of District residents assist the Board of Directors in consideration of water problems and in financial planning. The District currently employs 28 full-time employees to operate, maintain and administer the District system.

The District covers an area of approximately 74 square miles in northern San Diego County. The District is located about 75 miles south of Los Angeles and 40 miles north of the City of San Diego. The nearest communities are the Cities of Escondido and Oceanside and the unincorporated community of Fallbrook.

The principal activity of the District is the development and operation of a water transmission and distribution system capable of delivering both irrigation and domestic water throughout the District. Approximately 93 percent of the water is used for agriculture while about 7 percent is sold for domestic use. In addition to water service, the District provides

domestic sewage collection and disposal service to three developing areas within its boundaries.

The District's policy is to provide, as a District-wide obligation, all main water storage, pumping and transmission facilities and, through the issuance of bonds of improvement districts, to finance the construction of distribution systems. Where subdivided areas desire sewage collection disposal facilities, they are either installed by the developer or through issuance of bonds of improvement districts. There are presently three sewer improvement districts, two with treatment plants and the third connected by an interceptor sewer to the City of Oceanside sewage plant.

Population and Water Use

The tabulation below summarizes the estimated population and growth in water use within the District since 1971.

RAINBOW MUNICIPAL WATER DISTRICT

Estimated Population and Water Use

Year	Estimated Population	Number of Meters	Water Consumption in Acre Feet		
			Agricultural	Domestic	Total
1971	4,400	1,551	15,700	1,200	16,900
1972	4,500	1,771	17,800	1,360	19,160
1973	4,650	1,973	15,120	1,060	16,180
1974	4,750	2,130	17,857	1,251	19,108
1975	6,000	2,302	18,561	1,309	19,870
1976 (8 mos.)	6,000	2,712*	13,739	1,105	14,844

*Increase includes meters acquired with Bonsall Heights Water District.

Source: Rainbow Municipal Water District.

Climate and Topography

Climatic conditions within the District are typical of Southern California, with the exception that the Santa Margarita Mountains partially shield it from moderating cool sea breezes so that it shows greater temperature extremes than most coastal areas. Rainfall generally is confined to the period between November and April and averages 15 inches per year.

The topography of the District ranges from relatively level valley lands to steeply sloping ridges with long, narrow canyons. Elevations vary from 120 feet in the San Luis Rey River basin to mountains over 2,200 feet high. The configuration of land enables dense, cold air to slide off the valley sides, which results in a low incidence of frost, a condition essential to the growth of avocados and citrus, the major crops grown in the District.

Agriculture

Despite its growing urbanization, San Diego County remains the leading producer of avocados in the United States. During the past decade overall acreage planted to avocados has declined as groves in the southern portion of the County have been replaced with commercial, industrial and residential developments. However, this trend has been accompanied by a growth in planting in the northern portion of the County, especially in the Rainbow Municipal Water District. In 1975, there were approximately 6,650 acres of land planted in avocados within the District. This represented approximately half of the total acreage in the County devoted to avocados.

The California Avocado Advisory Board and California Crop and Livestock Reporting Service reported a statewide gross avocado crop value in excess of \$50 million in 1975/76. The Board also reported a total of 25,700 acres of commercially mature avocado trees in the three largest producing counties (San Diego, Santa Barbara and Ventura). Of this total acreage, the Rainbow Municipal Water District has 6,650 acres, or 26%.

Another important agricultural crop in the District is lemons. Approximately 1,850 acres were devoted to lemon groves in 1975. Both avocado and citrus growing in the District originally developed primarily in relatively large commercial groves. Of late, there has been an increase in the number of smaller groves developed to provide a second or retirement income.

Further expansion of avocado and citrus production is expected in the future. There are approximately 13,000 additional acres in the District suitable for these crops.

Other major agricultural production categories within the District include animal husbandry, row crops, horticulture and field crops. Approximately 2,000 acres within the District are currently devoted to these categories.

Employment and Industry

Employment within the District and immediate area is primarily in the field of agriculture and related industries. Important in the agricultural field is the Fallbrook Citrus Association, which is associated with Sunkist, and the Calavo Growers Association. The second most active area of employment is in the trade and service categories, followed by residential and commercial construction. Located within commuting distance of the District at Oceanside, Escondido and Carlsbad are such industrial employers as ACDC Electronics, Beckman Instruments, Deutsch Company, Sargent Industries, Swan Electronics and the Burroughs Corporation. In addition, hospitals, schools, local governments and large retail outlets provide major sources of employment in the north county region.

Camp Pendleton

The Camp Joseph Pendleton U. S. Marine Corps Base is located adjacent to the western boundary of the District and extends along 17 miles of coastline from the City of San Clemente southward to the northern boundary of the City of Oceanside. Camp Pendleton is the world's largest Marine amphibious training base and home of the 1st Marine Division. The base encompasses approximately 125,000 acres and includes facilities for the basic training of infantrymen. Camp Pendleton also has facilities for the training and exercise of amphibious assault air/ground teams.

Base personnel include approximately 31,500 military, 9,500 dependents living on-base and 3,000 civilian employees. The annual payroll exceeds \$190 million.

Construction Activity

The majority of construction activity within the District centers around residential building in and near three recreation-oriented developments.

Pala Mesa, a 2,500-acre development located in the mid-eastern portion of the District on Interstate 15, includes both residential-community and residential-estate type parcels. The main features include an 18-hole championship golf course, all underground utilities, and central clubhouse facilities. In addition, a public restaurant and 84-unit motel complex have been completed adjoining the golf course. The developers of Pala Mesa also are associated with Pauma Heights, a 700-acre residential/agricultural development near Escondido.

The Valley Oaks Mobile Community, bordering the Pala Mesa Golf Course and Live Oak Park, a county facility, offer the mobile home resident a choice of more than 200 rental sites. The central clubhouse includes a swimming pool, meeting rooms and sauna baths.

Two other mobile home parks being developed in the District are Rancho Monserate (over 200 spaces) and Oak Crest (over 100 spaces). Both are located adjacent to Interstate 15.

Both Laketree Estates and Live Oak Estates offer sites for custom-built homes overlooking the Fallbrook Country Club, located in the District. The 18-hole golf course, which was completed in 1964, has become a favorite for local golfing enthusiasts. Additional new homes are being constructed in the area each year.

San Luis Rey Downs, a development begun by Westgate-California Corporation and affiliated companies, adjacent to the community of Bonsall, includes a thoroughbred training facility with a mile-long track and accommodations for 330 horses, a recreation center and townhouses in the \$90,000 range. An 18-hole golf course is on the property. Westgate-California Corporation and the most recent principal developer, Pepperland, Incorporated, are presently in bankruptcy, as discussed previously in the "District Financial Data" section of this official statement. However, some development is continuing on the property.

Commerce

The District has or is near a number of local commercial establishments, principally in the unincorporated communities of Bonsall and Fallbrook, in addition to a commercial strip along Interstate 15 (U.S. 395). The major trade centers for the District are the Cities of Escondido and Oceanside, to the southeast and southwest, respectively, of the District. These cities, located within easy commuting distance

of District residents have many shopping centers and provide a full range of retail outlets and services.

Statistics for taxable transactions are not compiled for the District separately. However, as an indicator of general commercial activity, the following tabulation presents a five-year summary of taxable transactions for both the City of Escondido and City of Oceanside.

Taxable Transactions (\$000)

Year	City of Escondido	City of Oceanside
1971	\$152,816	\$ 86,221
1972	189,466	106,609
1973	231,597	121,093
1974	250,431	118,443
1975	272,189	130,447

Source: State Board of Equalization.

Transportation

The Rainbow Municipal Water District is traversed by Interstate 15 (U.S. 395), the major north-south route connecting the cities of San Diego and Riverside. This highway is sixteen miles east of Interstate 5, California's principal north-south route. Bus service to adjoining communities, as well as the metropolitan centers of San Diego and Los Angeles, is available in Fallbrook via Greyhound Bus Lines.

The Santa Fe Railway provides freight service, primarily for agricultural products to marketing centers. Amtrak-operated passenger trains with connections throughout the nation may be boarded at Oceanside, ten miles to the west. San Diego International Airport is the main air terminus for the County. The airport is served by eight scheduled airlines which also offer freight and express service. Fallbrook Air Park, approximately five miles from the District, is a general aviation facility.

Utilities

Rainbow Municipal Water District is provided gas and electric service by San Diego Gas and Electric Company. Telephone service is provided by Pacific Telephone and Telegraph Company.

Banking

Banking and savings and loan institutions located within the District include branches of the Bank of America NT & SA, Security Pacific National Bank, Southwest Bank, La Jolla Federal Savings, Mutual Savings and Oceanside Federal Savings, all located in Fallbrook. Additional banking and savings and loan branches are located in both Oceanside and Escondido.

Education

Public education is provided in the District primarily by the Bonsall Unified School District, Fallbrook Unified School District, Vallecitos School District and the Fallbrook Union High School District. Palomar Community College, located 10 miles south of the District in San Marcos, is a two-year community college. Many colleges and universities are available in the San Diego area and in the neighboring counties of Orange and Riverside.

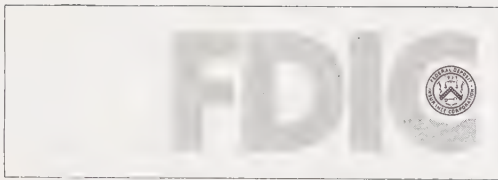
Recreation

A total of 592 acres within the District are devoted to recreational uses. Included are three golf courses and Live Oak County Park. Five other golf courses are within convenient driving distance. Mount Palomar, site of the world famous Palomar Observatory and a newly opened ski area, lies within one hour's driving time in the Cleveland National Forest. Located in Oceanside are an extensive public beach, a municipal pier and a small craft harbor.

Community Facilities

The District is served by the local weekly Fallbrook Enterprise and daily newspapers from the Los Angeles and San Diego metropolitan centers. A community antenna television service provides reception from both Los Angeles and San Diego as well as stations located in adjoining communities.

Medical assistance is available at the modern 50-bed Fallbrook Community Hospital. Three other general hospitals located in nearby Escondido and Oceanside have a total of 471 beds and provide a full range of hospital services. More than thirty physicians, surgeons and dentists maintain offices in the community area.



APPENDIX

FEDERAL DEPOSIT INSURANCE CORPORATION
Post Office Box 950
San Diego, California 92112

July 30, 1975

AUG 1 1975

Honorable Clair W. Burgener
House of Representatives
House Office Building
316 Cannon
Washington, D. C. 20515

Dear Congressman Burgener:

Subject: United States National Bank
San Diego, California
In Receivership NR-305
Rainbow Municipal Water District

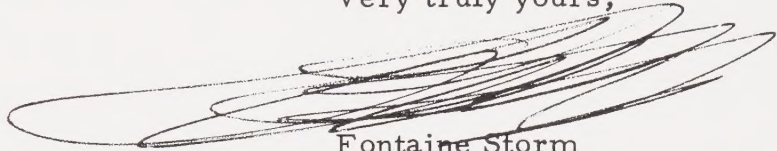
Your letter of July 15, 1975, has been directed to me for our reply by the Director of the Congressional Liaison Office of the Federal Deposit Insurance Corporation in Washington, D. C. regarding Rainbow Municipal Water District in Fallbrook, California, and the delinquent taxes on various parcels in San Luis Rey Downs. The Federal Deposit Insurance Corporation, as Receiver of United States National Bank, is the holder of liens upon a substantial number of acres in the San Luis Rey Downs area on which there are delinquent taxes as represented by the Rainbow Municipal Water District to you in its letter of July 11, 1975. The properties included are owned by some fourteen different corporations and are currently being operated and controlled by them. The majority of the properties are under the control of Mr. John Smith through various corporations including Pepperland, Inc., Pacific View Condominiums, San Luis Rey Estates, Bonsall Highlands Estates, Inc., Urick & Hollis, Keystone Brokerage Company, and San Luis Rey Downs, Inc.

While we believe that the Receivership's liens are valid and constitute first liens upon the properties in question, and while we are currently commencing foreclosure proceedings upon all of the properties, it should be noted that the aforementioned corporations controlled by Mr. John Smith have filed an Action No. 75-0386-N in the United States District Court for the Southern District of California claiming substantial offsets against their indebtednesses to the Receivership and praying for a stay of the aforementioned foreclosure actions.

Honorable Clair W. Burgener
July 30, 1975
Page 2

In view of the contest by Mr. Smith's companies, this Receivership believes that it would be imprudent for it to advance the delinquent taxes in question until such time as it obtains title to the property through foreclosure and dispenses with the contest by Mr. Smith's companies. It should be noted in this regard that the properties have a value substantially below the amounts owing to this Receivership, there will be a substantial deficiency to this Receivership on these loans and it would be impossible to recoup the advance of taxes in the foreclosure actions. It would obviously be the intent of this Receivership, however, to bring the subject taxes current at such time as marketable title is obtained.

Very truly yours,

A large, stylized handwritten signature in dark ink, consisting of several overlapping loops and strokes, positioned above the printed name.

Fontaine Storm
Liquidator

TBS/bh

cc: Mr. George W. Hill
Mr. Myers N. Fisher
Mr. Thomas B. Swartz

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